

COMPANY RESULTS

Japfa (JAP SP)

2Q22: Results In Line; Weakness From Vietnam And High Feed Costs

Japfa's 1H22 core PATMI of US\$54m (-54% yoy) was in line with our expectations, forming 52% of our full-year forecast. 2Q22 core PATMI of Indonesia's poultry segment (-20% qoq) and China's dairy segment (-10% qoq) fell due to high feed costs. However, Vietnam's core PATMI improved from a US\$11m loss in 1Q22 to a US\$2m loss in 2Q22 due to higher sales volume of poultry and recovery of poultry prices, but the swine business remains weak due to resurgence of ASF. Maintain HOLD. Target price: S\$0.63.

1H22 RESULTS

Year to 31 Dec (US\$m)	1H22	1H21	yoy % chg
Revenue	2,498.0	2,262.4	10.4
Operating Profit	171.0	270.9	(36.9)
Operating Margin (%)	6.8	12.0	(5.2ppt)
PATMI	44.0	118.5	(62.9)
PATMI Margin (%)	1.8	5.2	(3.4ppt)
Core PATMI	53.6	117.3	(64.3)
Core PATMI Net Margin (%)	2.1	5.2	(3.1ppt)

Source: Japfa, UOB Kay Hian

RESULTS

- Results in line with expectations.** Japfa's 1H22 core PATMI of US\$54m (-54% yoy) was in line with our expectations, forming 52% of our full-year forecast. Revenue rose 10% yoy to US\$2.3b, mainly driven by higher poultry prices. The core PATMI weakened as higher feed raw material costs across all segments and African Swine Fever (ASF) in Vietnam challenged operations and tightened profitability.
- Japfa TBK declined marginally qoq but showed slight improvement in APO.** In 2Q22, Japfa TBK reported core PATMI of US\$18m (-25% yoy/-20% qoq). Although Indonesia's poultry ASPs have increased, profitability still remains under pressure as high feed raw material costs resulted in increased production costs across the vertically integrated operations. On the other hand, losses from the Animal Protein Other (APO) segment narrowed from a US\$11m loss in 1Q22 to a US\$2m loss in 2Q22 due to higher sales volume of poultry and recovery of poultry prices, but the swine business remains weak due to resurgence of ASF since 4Q21, with swine ASPs depressed by pre-emptive sales in the market.
- China dairy's profitability affected by high feed costs.** China's dairy revenue rose 14% yoy for 1H22, driven by higher raw milk sales volumes, with the additional contribution from Farm 8 and the two recently-acquired farms in Shandong. However, core PATMI for the dairy segment fell 49% yoy to US\$22m due to high feed costs, which resulted in increased production costs for both dairy and beef operations.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	3,868	4,636	4,808	4,923	5,038
EBITDA	486	458	458	503	524
Operating profit	364	332	313	350	362
Net profit (rep./act.)	322	119	104	131	136
Net profit (adj.)	195	133	104	131	136
EPS (US\$ cent)	9.6	6.5	5.1	6.4	6.7
PE (x)	4.4	6.5	8.3	6.6	6.4
P/B (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	5.0	5.3	5.3	4.9	4.7
Dividend yield (%)	19.0	3.5	3.5	3.5	3.5
Net margin (%)	8.3	2.6	2.2	2.7	2.7
Net debt/(cash) to equity (%)	54.7	69.3	52.5	48.2	44.0
Interest cover (x)	4.9	4.9	4.9	5.0	5.2
ROE (%)	28.0	8.3	7.1	8.4	8.2
Consensus net profit	-	-	100	136	143
UOBKH/Consensus (x)	-	-	1.04	0.96	0.95

Source: Bloomberg, Japfa, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$0.585
Target Price	S\$0.630
Upside	+7.7%

COMPANY DESCRIPTION

Japfa operates in the agri-food industry. The company breeds and processes chicken, pork and beef. Japfa also operates dairy farms.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	JAP SP
Shares issued (m):	2,046.6
Market cap (S\$m):	1,197.3
Market cap (US\$m):	868.0
3-mth avg daily t'over (US\$m):	0.6

Price Performance (%)

52-week high/low	S\$0.759/S\$0.560			
1mth	3mth	6mth	1yr	YTD
0.0	(3.3)	(3.4)	(22.9)	(2.6)

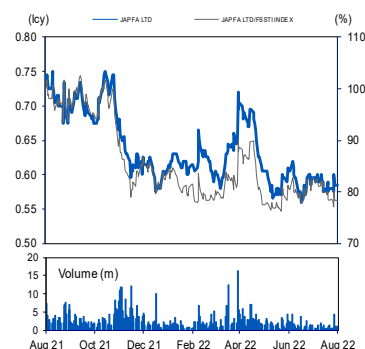
Major Shareholders

	%
Rangi Management Ltd	50.3
Morze Int'l	15.3
Tasburgh	6.9

FY22 NAV/Share (US\$) 0.74

FY22 Net Debt/Share (US\$) 0.39

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **All segments to face uncertainties from higher costs of raw materials and volatile ASPs.** In Vietnam, swine prices in 2022 and 2021 were lower compared to 2020 when the prices were exceptionally high due to supply shortage caused by ASF. In addition, disruptions in global logistics translated into higher costs of raw materials which has led to high feed raw costs and resulted in increased production costs which may not be quickly passed on to the end-consumers.

EARNINGS REVISION/RISK

- We maintain our financial forecasts.

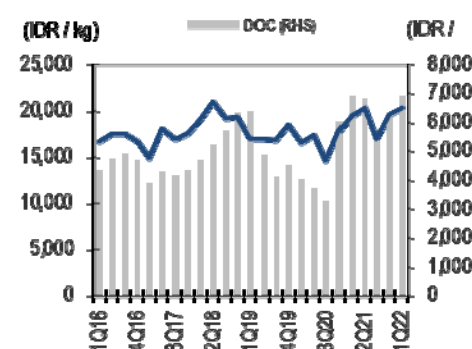
VALUATION/RECOMMENDATION

- **Maintain HOLD and SOTP-based target price of S\$0.63**, which implies 9.1x 2022F. Suggested entry price: S\$0.56.

SHARE PRICE CATALYST

- Better-than-expected ASPs for Indonesia poultry, China dairy and Vietnam swine products.
- Successful value-unlocking activities such as spinning off the dairy or APO segment(s).
- Strengthening of currencies in Indonesia, Vietnam and China.

INDONESIA POULTRY AND DOC PRICE



Source: Arboge, Japfa, UOB Kay Hian

VIETNAM SWINE PRICE (VND/KG)



Source: DA, MARD, USDA, Rabobank 2022, Japfa

SOTP VALUATION

	2022F core net profit (US\$m)	Ascribed PE multiple (x)	Value (US\$m)	Remarks
PT Japfa Tbk (Indonesia Poultry)	51.0	8.0	407.9	Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook.
Dairy	79.5	NA	763.2	Based on the transaction value of US\$254m to acquire a 25% stake by Meiji. This will value the entire business at US\$1,018m, of which Japfa will own 75% post transaction.
APO (Vietnam Swine)	(21.1)	8.0	-	Based on -1SD below the long-term mean PE of PT Japfa TBK, to reflect a more uncertain outlook.
Corporate net debt			(20)	
Total			1,191.1	
After 20% conglomerate discount			952.9	
Value per share (US\$)			0.47	
Value per share (S\$)			0.63	

Source: UOB Kay Hian

PEER COMPARISON

Company	Ticker	Price @ 29 Jul 22 (lcy)	Market Cap (US\$m)	PE		P/B		EV/EBITDA		ROE	Yield
				2022 (x)	2023 (x)	2022 (x)	2023 (x)	2022 (x)	2023 (x)	2022 (%)	2022 (%)
Indonesian Protein Peers											
Japfa Comfeed	JPFA IJ	1445	1,140	8.9	7.4	1.2	1.1	5.7	5.0	12.7	5.3
Charoen Pokphand Indo	CPIN IJ	5600	6,177	22.4	18.6	3.3	3.0	13.9	11.8	16.3	1.8
Malindo Feedmill	MAIN IJ	610	92	24.6	16.8	0.6	0.6	6.7	5.9	2.5	n.a.
Average				18.6	14.3	1.7	1.6	8.8	7.6	10.5	3.6
Dairy Peers											
Inner Mongolia Yili	600887 CH	35.83	34,037	21.4	18.3	4.2	3.8	14.8	12.4	20.6	3.3
China Mengniu Dairy	2319 HK	36.4	18,338	21.1	17.6	2.9	2.6	17.0	14.4	14.1	1.3
China Modern Dairy	1117 HK	1.03	1,039	5.0	3.6	0.5	0.5	5.1	4.5	12.5	3.6
Average				15.8	13.2	2.6	2.3	12.3	10.4	15.7	2.7
Japfa	JAP SP	0.585	868	8.3	6.6	0.6	0.5	5.3	4.9	7.1	3.5

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	4,636.4	4,807.9	4,923.0	5,037.9
EBITDA	458.2	458.4	502.8	523.6
Deprec. & amort.	126.3	144.9	153.2	161.4
EBIT	331.9	313.5	349.5	362.2
Total other non-operating income	33.4	0.0	0.0	0.0
Associate contributions	1.0	0.0	0.0	0.0
Net interest income/(expense)	(93.2)	(93.7)	(100.3)	(101.6)
Pre-tax profit	266.8	219.7	249.2	260.6
Tax	(54.1)	(41.7)	(42.4)	(46.9)
Minorities	0.0	(73.6)	(76.0)	(77.9)
Net profit	212.7	104.4	130.9	135.9
Net profit (adj.)	132.7	104.4	130.9	135.9

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	1,341.7	1,418.8	1,494.3	1,568.6
Other LT assets	1,104.1	1,145.1	1,189.3	1,237.1
Cash/ST investment	320.6	520.9	536.2	557.4
Other current assets	1,535.9	1,459.5	1,508.5	1,560.2
Total assets	4,302.2	4,544.4	4,728.3	4,923.2
ST debt	573.8	573.8	573.8	573.8
Other current liabilities	467.8	562.0	569.0	580.2
LT debt	735.1	735.1	735.1	735.1
Other LT liabilities	379.1	379.1	379.1	379.1
Shareholders' equity	1,427.0	1,501.4	1,602.2	1,708.1
Minority interest	719.5	793.1	869.1	946.9
Total liabilities & equity	4,302.2	4,544.4	4,728.3	4,923.2

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	385.5	546.2	374.3	388.4
Pre-tax profit	266.8	219.7	249.2	260.6
Tax	(65.2)	(41.7)	(42.4)	(46.9)
Deprec. & amort.	126.3	144.9	153.2	161.4
Associates	1.0	0.0	0.0	0.0
Working capital changes	(90.1)	129.6	(86.1)	(88.3)
Non-cash items	(5.2)	0.0	0.0	0.0
Other operating cashflows	152.0	93.7	100.3	101.6
Investing	(258.2)	(220.3)	(226.9)	(233.8)
Capex (growth)	(217.5)	(222.1)	(228.7)	(235.6)
Investments	0.0	0.0	0.0	0.0
Proceeds from sale of assets	3.2	0.0	0.0	0.0
Others	(43.8)	1.8	1.8	1.8
Financing	(30.0)	(125.6)	(132.1)	(133.4)
Dividend payments	(166.2)	(30.0)	(30.0)	(30.0)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	110.2	0.0	0.0	0.0
Others/interest paid	25.9	(95.5)	(102.1)	(103.4)
Net cash inflow (outflow)	97.3	200.4	15.2	21.2
Beginning cash & cash equivalent	224.3	320.6	520.9	536.2
Changes due to forex impact	(1.0)	0.0	0.0	0.0
Ending cash & cash equivalent	320.6	520.9	536.2	557.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	9.9	9.5	10.2	10.4
Pre-tax margin	5.8	4.6	5.1	5.2
Net margin	2.6	2.2	2.7	2.7
ROA	3.0	2.4	2.8	2.8
ROE	8.3	7.1	8.4	8.2
Growth				
Turnover	19.9	3.7	2.4	2.3
EBITDA	(5.7)	0.0	9.7	4.1
Pre-tax profit	(36.8)	(17.7)	13.4	4.6
Net profit	(63.1)	(12.1)	25.3	3.8
Net profit (adj.)	(32.1)	(21.3)	25.3	3.8
EPS	(32.5)	(21.3)	25.3	3.8
Leverage				
Debt to total capital	37.9	36.3	34.6	33.0
Debt to equity	91.7	87.2	81.7	76.6
Net debt/(cash) to equity	69.3	52.5	48.2	44.0
Interest cover (x)	4.9	4.9	5.0	5.2

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